DOCUMENT RESUME

ED 412 699 EC 305 914

| | |
|---|---|
| AUTHOR | Parrish, Thomas B. |
| TITLE | Special Education in an Era of School Reform: Special Education Finance. |
| INSTITUTION | Federal Resource Center for Special Education, Lexington, KY.; American Institutes for Research in the Behavioral Sciences, Palo Alto, CA. Center for Special Education Finance.; Academy for Educational Development, Washington, DC. |
| SPONS AGENCY | Special Education Programs (ED/OSERS), Washington, DC. |
| PUB DATE | 1997-09-00 |
| NOTE | 53p. |
| CONTRACT | HS93033001 |
| AVAILABLE FROM | Federal Resource Center, Academy for Educational Development, 1875 Connecticut Avenue, Suite 900, Washington, DC 20009; telephone: 202-884-8215. |
| PUB TYPE | Guides - Non-Classroom (055) -- Information Analyses (070) -- Reports - Descriptive (141) |
| EDRS PRICE | MF01/PC03 Plus Postage. |
| DESCRIPTORS | *Disabilities; *Economic Factors; *Educational Finance; Educational Innovation; Elementary Secondary Education; Expenditure per Student; *Finance Reform; Financial Policy; Financial Support; Inclusive Schools; Program Costs; *Special Education; *State Aid; Student Costs; Student Placement |

ABSTRACT

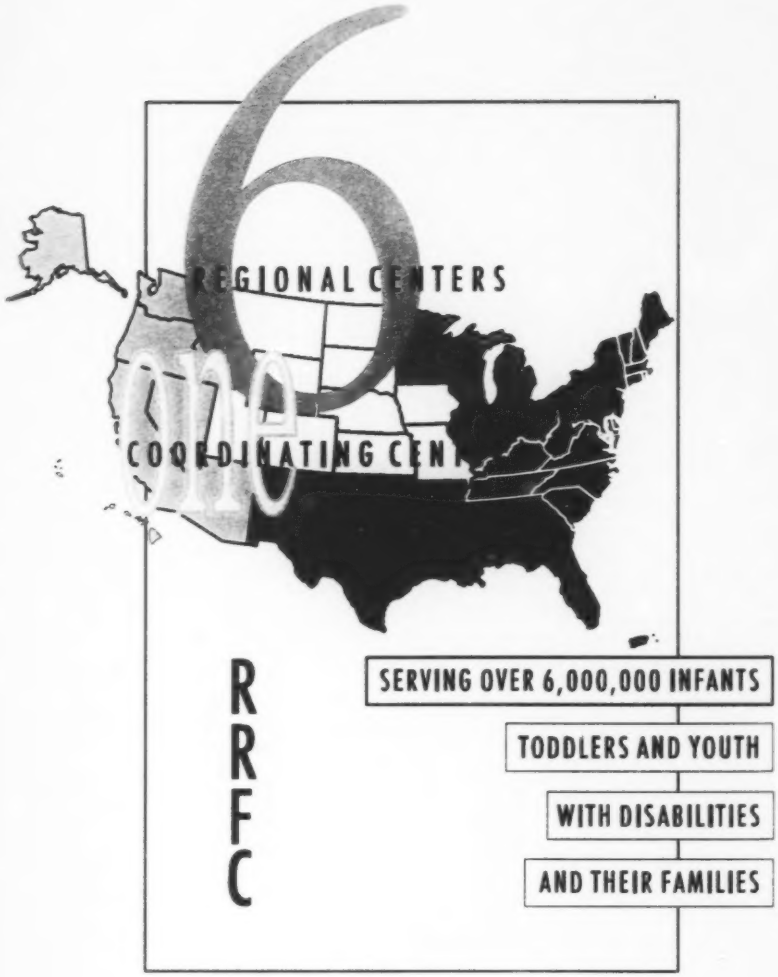
This report summarizes and discusses some of the major fiscal policy questions surrounding the funding of special education in the current era of school reform. Part 1, "Current Special Education Financing: Issues and Provisions," addresses how special education is currently funded and the different formulas used for special education funding. Issues that are driving the reform of special education funding are outlined, including the need for greater flexibility in placement and use, rising special education costs and enrollments, concerns over the efficiency of special education services, the strict categorical nature of special education services, and fiscal policies that work at cross purposes with inclusion policies. Part 2 of the report, "State and Federal Reform Initiatives" discusses different ways that governments are addressing the issues of special education funding, including census-based funding, adjusting special education funding based on student poverty, removing fiscal incentives for restrictive placements, changing the federal "incidental benefit" rule, and blended funding and service provisions. Criteria that states should consider when developing funding systems to foster effective special education programming, how states' fiscal policies can encourage integrated services, and ways states have been able to overcome difficulties in implementing fiscal reform policies are also reviewed. (Contains 18 references.) (CR)

**********
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
**********

# Special Education in an Era of School Reform

ED 412 699

Special Education Finance
by Thomas Parrish, Ed.D.




U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

A Product of the
Regional Resource and
Federal Center Network

305914



BEST COPY AVAILABLE

# SPECIAL EDUCATION FINANCE

by Thomas B. Parrish, Ed.D.

Co-Director, Center for Special Education Finance
American Institutes for Research
Palo Alto, California

September 1997

This is a product of the Federal Resource Center, part of the Regional Resource and Federal Center Network. Reproduction of this document without the express permission of the Academy for Educational Development is prohibited.

Carol H. Valdivieso, Ph.D.
Director

Reports in the series *Special Education in an Era of School Reform:*

An Overview by Margaret McLaughlin, Ph.D.
Special Education Finance by Thomas B. Parrish, Ed.D.
Accountability, Standards, & Assessment by Ronald Erickson, Ph.D.
Preparing Special Education Teachers by Michael L. Hardman, Ph.D., John McDonnell, Ph.D. and Marshall Welch, Ph.D.

This document has been prepared with assistance from the following individuals:

Series Editor: Margaret McLaughlin, Ph.D.
Editorial Board:
John Heskett, Ed.D.
Phyllis Kelly, Ed.D.
Jonathon McIntyre, Ph.D.
Karl Murray
Jeffery Osowski, Ph.D.
Richard Zeller, Ph.D.

Technical Editor: Janet Gallant
Cover: Madison Moore of madgraphics
Layout/Design: Michele Rovins

The Federal Resource Center (FRC) is part of the Regional Resource and Federal Centers (RRFC) Network. The RRFCs, a national network of technical assistance and dissemination projects, is composed of six Regional Resource Centers (RRCs) which work with state education departments and human service agencies, and the Federal Resource Center for Special Education which coordinates the RRCs and is a liaison between the Network and the U.S. Department of Education's Office of Special Education and Rehabilitative Services. The ultimate beneficiaries of the RRFC's services are infants, toddlers, children, and youth with disabilities, and the families and professionals who are associated with them.

# PREFACE

This report is part of a series on contemporary school reform and special education. Schools are under increasing pressure to change, and the push is coming from many sources. Governments and citizens want more accountability, higher standards, and better use of tax dollars. Businesses want a more educated and skilled workforce and a growing population of students with special needs requires a greater number of appropriate services. Current federal, state, and local reform touches on many areas of education—curriculum, teaching, standards, assessment, finance, professional development, and governance. This current series discusses four elements of school reform and shows how they impact special education, additional papers on special education and school reform will be published by the Federal Resource Center. The more special educators, advocates, and decision-makers know about reform, the more effective they will be at ensuring access to services and opportunities for all students.

The reports available in this series are:

- Special Education in an Era of School Reform: An Overview by Margaret McLaughlin, Ph.D.;
- Special Education in an Era of School Reform: Special Education Finance by Thomas B. Parrish, Ed.D.;
- Special Education in an Era of School Reform: Accountability, Standards, and Assessment by Ronald Erickson, Ph.D.; and
- Special Education in an Era of School Reform: Preparing Special Education Teachers by Michael L. Hardman, Ph.D., John McDonnell, Ph.D., and Marshall Welch, Ph.D.

# CONTENTS

## *SPECIAL EDUCATION IN AN ERA OF SCHOOL REFORM:* SPECIAL EDUCATION FINANCE


**INTRODUCTION** 1

- Why is special education finance a "hot topic"? 1
- What does this report focus on? 2
- Where does the information on fiscal reform come from? 3
- Who can benefit from this report? 3

**PART I: CURRENT SPECIAL EDUCATION FINANCING: ISSUES AND PROVISIONS** 4

- How much do we spend and where does the money come from? 4
- What is the federal share of funding? 5
- What do state and local governments contribute? 5
- What formulas are used for special education funding? 6
  - Percent reimbursement 6
  - Pupil "weighting" system 7
  - Number of teachers 8
  - Fixed dollar grant per student 10
- What issues are driving reform of special education funding? 11
  - Need for greater flexibility in placement and use 11
  - Rising special education costs and enrollments 13
  - Concerns over the efficiency of special education services 14
  - High cost of special education assessment and program administration 15
  - Strict categorical nature of special education services 16
  - Fiscal policies that work at cross purposes with special education inclusion policies 17

**PART 2: STATE AND FEDERAL REFORM INITIATIVES** 18

- How are governments addressing the issues of special education funding? 18
  - A new alternative: census-based funding 18

- Adjusting special education funding based on student poverty 22
- Removing fiscal incentives for restrictive placements 26
- Changing the federal "incidental benefit" rule 28
- Blended funding and service provision 28

- How does the method of special education funding affect instruction and services? 30
- What criteria must states consider when developing funding systems to foster effective special education programming? 30
- How can state fiscal policies encourage integrated services? 33
  - Remove incentives favoring segregated and separate placements. 33
  - Decide on the extent to which separate special education schools should be encouraged. 35
  - Let dollars follow students into less restrictive placements. 35
  - Support staff training for integrated service systems. 35
  - Fund alternative intervention systems for all students. 36
- How have some states been able to overcome difficulties in implementing fiscal reform policy? 36
  - Timing 36
  - Public relations 37
  - Politics 37
  - Post-reform evaluative data 37
- What is the future of special education finance? 38
- How is special education finance reform related to other elements of school reform? 39

**ENDNOTES** 42

**REFERENCES** 44

# INTRODUCTION

With the passage of the Education for All Handicapped Children Act (P.L. 94-142) in 1975, programs and related services for students with disabilities have become a major component of public education in the United States. What was previously a patchwork of programs for students with disabilities began transformation into a truly national system of services. In 1990, P.L. 94-142, reauthorized as the Individuals with Disabilities Education Act (IDEA), enshrined in law and practice the right to a free and appropriate public education for all children and youth with disabilities. The fiscal centerpiece of the Act is a state grant-in-aid program, permanently authorized under Part B, which requires participating states to furnish all children with disabilities a free appropriate public education (FAPE) in the least restrictive environment (LRE). However, although the federal government provides important leadership in the formulation and interpretation of a national system of special education law, in terms of financial support it remains a junior partner to state and local levels of government.

**Why is special education finance a "hot topic"?**

There has been a lot of interest lately in issues related to special education finance. Feature articles have appeared in such national publications as *U.S News and World Report*, *The New York Times*, and the *Wall Street Journal*. A segment on this topic was featured in a recent edition of television's *60 Minutes*.

There are several reasons for these high levels of interest. One major reason is the estimated national annual expenditure of $32 billion on special education programs and services. More than the absolute magnitude of this expenditure, however, are increasing questions about whether these costs are rising too rapidly, and are *encroaching* upon the resources of the entire public education enterprise. Such concerns are exemplified by the title of a *New York Times* editorial, "Special Education Soaks up New York's School Resources" (1994).

At the same time, according to this year's *Phi Delta Kappa/Gallup Poll of the Public's Attitudes Toward the Public Schools*, 47% of adults said that America is spending *too little* of its total education budget on students with special needs (such as physical and mental disabilities), while 41% said that *about the right amount* is being spent. Only 5% said that too much is being spent (Elam, Rose, & Gallup, 1996).

In addition to increasing concerns about whether too much or too little is being spent on special education, there are increasing concerns about the relationship between special education funding and special education services. There is increasing recognition on the part of special education policy makers that special education funding provisions impact the ways in which special education programming is designed and provided. The way special education is funded can create incentives for developing programs that run counter to "best practice," and in some cases to the letter or the spirit of federal and state law. For example, funding provisions can create incentives for placing special education students in more restrictive settings instead of promoting the least restrictive environment (LRE) provisions of the IDEA.

**What does this report focus on?**

A considerable public investment is being made in education programs for children with disabilities. It is vitally important that these dollars be spent well - especially for the children who receive these services. For them the stakes are especially high. The most important focus of this paper is to consider how fiscal policy can be created to ensure the most effective and efficient use of these limited public resources.

Over two-thirds of the states are actively formulating changes to the ways in which they currently fund special education programs. The purpose of this document is to summarize and discuss some of the major fiscal policy questions surrounding the funding of special education. What are the major questions being asked about special education finance and what answers are available? What are the major policy questions being debated by the federal government and the states and how are they being addressed?

This report attempts to answer some of the thorny questions related to special education finance primarily by describing policy alternatives. Unfortunately, for many of the issues presented here, simple solutions have not yet been developed, and in many cases may not exist. In many instances, pros and cons of various alternatives are listed for policy makers to consider when making the best decisions within their local context. However, an exception to this general rule can be made in the case of fiscal incentives that encourage more restrictive placements of student with disabilities. Unfortunately, such provisions are fairly commonly found across the states and are clearly in violation of the IDEA. Promising fiscal policies in this and other areas are briefly described.

This document focuses primarily on state and federal policy questions, as these are the levels where fiscal policies are made. However, the information should also be of interest to local administrators and policy makers because many of the questions faced by the federal government and by states as they in distribute funds are also realities for local districts trying to determine the best policies for allocating resources to schools.

### Where does the information on fiscal reform come from?

The information in this document comes from several sources. The National Center for Special Education Finance (CSEF) has published a number of documents related to special education finance.[1] CSEF recently surveyed the states to find out about the issues with which the states are grappling as well as some possible solutions. As the saga of the federal IDEA reauthorization process continues, so do opportunities for fiscal and program reform at the federal level. In addition, the author of this report, who is the co-director of CSEF, has had the opportunity to discuss special education fiscal policy issues with a number of state and federal policy makers over the past several years through numerous federal meetings and visits to the states. This policy paper synthesizes some of the major themes from these many meetings, conferences, and conversations.

### Who can benefit from this report?

This document is written for anyone with an interest in special education. Levels of funding and the fiscal policy provisions governing these allocations profoundly affect all aspects of special education programs and services. The policies can determine who is eligible to benefit from this program, the types and levels of services received, and where these services will be delivered (e.g., in regular or special classrooms). Anyone with an interest in special education should also pay attention to the fiscal policies governing this program.

# PART I CURRENT SPECIAL EDUCATION FINANCING: ISSUES AND PROVISIONS

**How much do we spend and where does the money come from?**
While expenditures for special education services in the U.S. are known to be considerable (CSEF's estimates range from $30.9 to $34.8 billion for the 1995-96 school year[2]) exact current expenditures are unknown. This is because the states were last required to report these amounts for the 1987-88 school year and because the last independent national special education cost study, completed in 1988, was based on data from the 1985-86 school year.

**TABLE 1. AVERAGE PER PUPIL EXPENDITURES FOR SPECIAL EDUCATION PROGRAMS BY DISABILITY AND PROGRAM TYPE: 1985–86 SCHOOL YEAR (EXPRESSED IN 1995-96 DOLLARS)***

| Overall: | 1985–86 Expenditures Expressed in 1995–96 Dollars |
|---|---|
| Average per Pupil Special Education Expenditure: (Excludes all General Education Services) | $5,136 |
| Average per Pupil General Education Expenditure: (Excludes all Special Education Services) | $3,913 |
| Marginal Special to General Education Cost Ratio: | 1.3[A] |
| Total Special to General Education Student: | 2.3[B] |

| | Program Type | | |
|---|---|---|---|
| **Disability** | **Preschool** 1985–86 Expenditures (in '95-96 dollars) | **Self-contained[C]** 1985–86 Expenditures (in '95-96 dollars) | **Resource[C]** 1985–86 Expenditures (in '95-96 dollars) |
| Speech Impaired | $4,310 | $10,050 | $911 |
| Mentally Retarded | $5,606 | $6,591 | $3,223 |
| Orthopedically Impaired | $6,618 | $7,387 | $5,629 |
| Multihandicapped | $7,601 | $9,394 | na |
| Learning Disabled | $5,219 | $4,339 | $2,313 |
| Seriously Emotionally Disturbed | $6,048 | $6,836 | $3,688 |
| Deaf | $8,123 | $11,243 | na |
| Deaf-Blind | na | $28,736 | na |
| Hard of Hearing | $6,451 | $8,527 | $4,746 |
| Other Health Impaired | $4,565 | $6,731 | na |
| Autistic | $8,818 | $10,672 | na |
| Visually Impaired | $5,726 | $8,700 | $4,778 |
| Noncategorical | $5,188 | $5,185 | $2,436 |

[A]Figure derived by dividing $5,136 by $3,913
[B]Figure derived by ($5,136 + $3,913) / $3,913
[C]The 18th Annual Report to Congress defines resource room as 21-60%, and self-contained as >60% of the school day..
*The adjustment of 1987–88 data to 1995–96 prices is based on the Federal Budget Composite Deflator
Source: Moore, et al. (1988) pp. 67 and 86.

Data from this study showed that, on average, total expenditures for students receiving special education services were 2.3 times as great as for general education students (Moore, Strang, Schwartz and Braddock,1988). This means that the average marginal, or additional, cost of special education per student is 1.3 times the average overall expenditure for a general education student. However, expenditures vary considerably by type of disability and the nature of the services received. Table 1 shows the range of expenditures, using 1985-86 data but expressed in terms of 1995-96 dollars, for differing types of students in varying settings.

The most predominant variable affecting per pupil cost variations in education is generally the number and type of staff assigned to the program. The 1985-86 study reported 62% of the special education dollar went to direct instruction, 13% to special education assessment, 11% for support services such as program administration, 10% for related services such as speech and language, physical therapy, and social work services, and 4% for transportation.

**What is the federal share of funding?**

Federal funding under the IDEA is based on each state's count of children with disabilities who are receiving special education services. No distinction is made for variations in the types of disabilities or patterns of placement of special education children across the states. The number of school-age children who may be counted for federal funding purposes is limited to 12% of the general school-age population. However, a state must provide special education programs and services to all eligible children with disabilities.

In 1978, the federal allocation was set at 5% of the national average per pupil expenditure (APPE), and was authorized to rise to a high of 40% of the national APPE by FY 1982. However, federal aid allocated to students with disabilities has never exceeded 12.5% of the national APPE (Parrish & Verstegen, 1994). After about five years of slight decline in terms of inflation adjusted dollars per student, Congress raised federal support for special education for fiscal year 1997. This allocation is now estimated to cover about 8% of the nation's special education costs.

**What do state and local governments contribute?**

The major responsibility for education in the United States lies with the states. All 50 states have special provisions in their funding formulas that acknowledge the excess costs of special education.

**What formulas are used for special education funding?**

State special education funding formulas vary in their basic orientation from reimbursing a fixed percentage of actual special education expenditures (11 states), to pupil "weighting" systems in 19 states in which special education students generate a fixed multiple of the general education pupil allocation (e.g., two times as much as is allocated to general education students), to systems that directly fund specified numbers of special education teachers (10 states), to fixed dollar grants per student (10 states). Each of these basic orientations to special education funding in the states is briefly described below with an example of a funding formula from a representative state.

- Percent reimbursement. Under a percent reimbursement system, the amount of state special education aid a district receives is directly based on its expenditure for this program. Districts may be reimbursed for 100% of their program expenditures, as shown below for Rhode Island, or for some lesser percentage (e.g., 85% in Wyoming). Usually there is some basis for determining which costs are allowable and which are not under such a system. As with all special education funding systems, there may be overall caps on the number of students who can be claimed for funding purposes, on the claim of any individual district (e.g., can not exceed some specified percentage of the statewide average claim per student). Proponents of such a system cite benefits of a greater likelihood of adequacy of funding and reliability (i.e., districts have a good idea of exactly how much they will receive in state special education aid and when they will receive it). Another advantage is that under such a system states generally have very good data on how much is being spent on special education across the state.

  Critics argue that such systems tend to be high cost and may be hard to control. The reimbursement may come the year after the costs are incurred. Such a program can also be administratively burdensome. The reporting requirements are generally greater than under other systems and a lot of time can be spent attempting to determine which costs are allowable and which are not.

- Pupil "weighting" system. Under a "weighted" special education funding system, state special education aid is allocated on a per student basis. The amount of aid is based on the funding "weight" associated with each student. For example, Oregon applies a single funding weight of 2.0 to all eligible special education students in

**An Example: Rhode Island's Percent Reimbursement System**

Rhode Island's formula reimburses "allowable" excess costs incurred in educating special education students. The reimbursement for each child is based on the average expenditure per student in each district and a state calculation of the average excess cost per pupil for educating special education students in ten special education program placements (and for transportation and support services) statewide. For each special education student, the average per pupil expenditure for the district is subtracted from the total education expenditure for the child. The allowable reimbursement is that part of the child's excess cost which does not exceed 110% of the state calculation of the average excess cost of educating special education students in the child's primary special education program placement.

Each district's entitlement is reduced if the program is not fully funded through the state budget process. For example, in fiscal year 1994, this program was funded at 50%.

the state. This means that the amount of state aid for every special education student in a district is two times that received for a general education student in that district. However, most weighting systems differentiate among special education students, with those expected to be higher cost to serve receiving a larger weight, and therefore more state aid than those expected to be served at a lower cost. These weight differentials are based on expected costs because they may not hold true for any one student. However, categories of students with higher funding weights are those who are expected to be, on average, higher cost to serve. Funding weights are differentiated on the basis of placement (e.g., pull-out, special class, private residential), disability category (as shown below for Georgia), or some combination of the two.

Advantages often associated with weighted funding approaches are that they are easy to understand and that they are directly tied to general education funding. A disadvantage is that their linkage to true cost differentials for serving categories of students may not be based on careful analyses of prior expenditures, or true cost differentials. Another possible disadvantage is that these funding differentials can create fiscal incentives to place or identify students in settings, or in disability categories, with the largest funding weights. Weighting systems based on placement also may not have a designation for general classroom placements, which may create

a disincentive for placing students in the least restrictive environment.

- Number of teachers. Special education funding systems based on specific resources generally allocate funds based on the number of staff needed to serve the district's population of special education students. In the case of Missouri, allocations are awarded

**An Example: Georgia's Pupil "Weighting" System**

Georgia administers a weighted pupil formula, Quality Basic Education (QBE) funding, to distribute funds for all instructional programs, including special education. QBE funds are generated by multiplying the number of full-time equivalent (FTE) students in various types of instructional programs by program weights. The weighted FTEs are then multiplied by a base program amount established annually by the legislature. The program weights are reviewed triennially by a task force appointed by the Governor. For 1994-95, the special education program weights were as follows:

- **Category I**: Self-Contained Specific Learning Disabled and Self-Contained Speech-Language Disordered — 2.27
- **Category II**: Mildly Mentally Handicapped — 2.620
- **Category III**: Behavior Disordered, Moderately Mentally Handicapped, Severely Mentally Handicapped, Resourced Specific Learning Disabled, Resourced Speech-Language Disordered, Self-Contained Hearing Impaired and Deaf, Self-Contained Orthopedically Handicapped, and Self-Contained Other Health Impaired — 3.320
- **Category IV**: Deaf-Blind, Profoundly Mentally Handicapped, Visually Impaired and Blind, Resourced Hearing Impaired and Deaf, Resourced Orthopedically Handicapped, and Resourced Other Health Impaired — 5.541

Additional funds are provided to districts to pay the state minimum salaries, based on the training and experience of the district's certificated professional personnel in each instructional program.

based on an approved number of teachers, professional staff members other than classroom teachers, and aides.

Advantages of such a system are that they are generally easy to

understand and reflect the fact that educational program costs often do not occur on a per student basis. For example, if a district has a single special education class with a capacity for twelve children and is currently serving eleven children in this class, very little additional cost will be associated with adding a twelfth student.

Disadvantages include the imprecision of the allocations. For example, the fixed allocation shown below for Missouri will be much closer to offsetting the cost of a new teacher as opposed to an experienced one, placing districts with veteran teachers at a financial disadvantage. It has been pointed out that the Missouri system also allocates only about one-half funding for professional staff members other than teachers, even though such professionals as speech and physical therapists tend to be at least as costly as teachers. This type of system also tends to limit local flexibility through determinations of when and under what conditions staff members will be approved for funding.

- Fixed dollar grant per student. Federal IDEA funding is based on a fixed grant, or fixed amount, per special education student up to a limit of 12% of a state's school-age population. Some states

**An Example: Special Education Funding Based on Counts of Staff in Missouri**

Missouri distributes funds for special education programs based on a flat grant per approved class of students. Funds received for special education programs are in addition to the amount received from the basic per child foundation program. In 1994-95, special education funds were distributed as follows:

- $14,050 for each approved class of children
- $7,340 for each professional staff member other than classroom teachers
- $3,670 for each full-time teacher aide
- $1,530 for each homebound student
- One dollar for each child under 21 enumerated on the annual census of students with handicaps
- 3 to 4-year-old programs reimbursed at 100% of approved cost

also have such a flat grant funding system. As shown below for North Carolina, total state funding available for special education is divided by the special education count for the state to determine the amount of state aid to be received by districts per special education student. A newer variation to this approach is based on the total number of students in a district rather than the number of special education students. This is known as a census-based approach, which will be discussed at greater length later in this document.

Advantages associated with such a system are that it is very simple and has very limited administrative requirements. It also tends to allow a great deal of local flexibility in that it creates no fiscal incentive for putting a student in one placement or category of disability over another. In the case of the census-basis for determining the flat grant amount, it also does not create an incentive for placing students in special education.

Disadvantages are that expected cost variations are not reflected in such a system. Adequacy of funding is also sometimes cited as a problem under such a system. Other advantages and disadvantages of census-based approaches are described later in this report.
All of these systems primarily provide funds for special education services and for the most part are more alike than different. Beyond the state and federal shares of support, the remaining funding for special education programs comes from local district funds (Moore et al., 1988).

**An Example: North Carolina's Flat Grant Approach**

In North Carolina, state funds for special education are additional to basic education aid, which is based on average daily membership of school districts. Funds for exceptional education (which include both special education and programs for the academically gifted) are distributed on a per child basis determined by dividing the total available state exceptional children funds by the April 1 student headcounts of disabled and academically gifted students. Each district's allocation is determined by multiplying the per child amount by the total count of exceptional students.

The counts of exceptional children with disabilities in each local school district are limited to 12.5% of the average daily membership and 3.9% for academically gifted.

As discussed earlier, critical information about current levels and sources of special education funding is not available. However, we do know that special education services are funded through a combination of local, state, and federal revenues in all 50 states. In a recent CSEF survey, only 13 states responded that they could report special education expenditures with a high degree of confidence. This is because many states do not have education reporting systems that break out expenditures of this type on a programmatic basis. Thus, while it is often suggested by the popular media that special education costs are rising out of control, in fact current data are not available to support or refute these contentions on a national basis.

**What issues are driving reform of special education funding?**

A recent survey[3] of the states regarding special education finance revealed that 16 states have implemented some type of finance reform in the past five years (4 of these states are again considering reform). Twenty-eight states are currently considering major changes in their special education funding policies. Table 2 summarizes the finance reform movement by state. Major issues driving these reforms and responses from selected states follow.

- Need for greater flexibility in placement and use. When state officials were asked to identify the issues driving reform, more than a dozen answers were provided. However, the consensus was that greater flexibility in the provision of special education services was needed, and that fiscal disincentives for least restrictive placements needed to be eliminated.

The degree of flexibility can be affected by the type of funding formula used (column 2) and the basis for allocating funds (column 3). For example, allocations based on type of student placement (e.g., special day class) limit the placement of special education students.

Another important question relating to flexibility is whether special education funds must be spent only on special education students (column 4). Policies requiring this can provide more fiscal accountability, but they also reduce local control over program design. Interestingly, while this type of restriction is often presumed to exist, 27 states report that their policies do *not* require that all special education funds be spent exclusively on special education students.

## TABLE 2. STATE SPECIAL EDUCATION FUNDING REFORM ACTIVITY

| State | Current Funding Formula | Basis of Allocation | State Special Ed $ for Target Population Only | Implemented Reform within Last 5 Years | Considering Major Reform |
|---|---|---|---|---|---|
| Alabama | Flat Grant | Special Ed. Enrollment | X | X | X |
| Alaska | Pupil Weights | Type of Placement | | | X |
| Arizona[1] | Pupil Weights | Disabling Condition | | | X |
| Arkansas | Pupil Weights | Type of Placement | X | | X |
| California | Resource-Based | Classroom Unit | X | | X |
| Colorado | Flat Grant | Special Ed. Enrollment | X | X | |
| Connecticut | % Reimbursement | Actual Expenditures | | | X |
| Delaware | Resource-Based | Classroom Unit | X | | X |
| Florida | Pupil Weights | Disabling Condition | | | X |
| Georgia | Pupil Weights | Disabling Condition | For 90% of funds | | X |
| Hawaii | Pupil Weights | Placement & Condition | | | |
| Idaho | % Reimbursement | Actual Expenditures | X | X | |
| Illinois | Resource-Based | Allowable Costs | | X | X |
| Indiana | Pupil Weights | Disabling Condition | | | X |
| Iowa | Pupil Weights | Type of Placement | | | X |
| Kansas | Resource-Based | Number of Special Ed. Staff | X | | |
| Kentucky | Pupil Weights | Disabling Condition | | X | |
| Louisiana | % Reimbursement | Actual Expenditures | X | | X |
| Maine | % Reimbursement | Allowable Costs | X | | X |
| Maryland | Flat Grant | Special Ed. Enrollment | X | | |
| Massachusetts | Flat Grant | Total District Enrollment | | X | |
| Michigan | % Reimbursement | Allowable Costs | X | | X |
| Minnesota | % Reimbursement | Actual Expenditures | X | | X |
| Mississippi | Resource-Based | Number of Special Ed. Staff | X | | |
| Missouri | Resource-Based | Number of Special Ed. Staff | X | X | X |
| Montana | Flat Grant | Total District Enrollment | | X | |
| Nebraska | % Reimbursement | Allowable Costs | X | | X |
| Nevada | Resource-Based | Classroom Unit | X | | |
| New Hampshire | Pupil Weights | Type of Placement | | | X |
| New Jersey | Pupil Weights | Placement & Condition | | | |
| New Mexico | Pupil Weights | Services Received | | | X |
| New York | Pupil Weights | Type of Placement | X | | X |
| North Carolina | Flat Grant | Special Ed. Enrollment | X | | |
| North Dakota | Flat Grant | Total District Enrollment | | X | |
| Ohio | Resource-Based | Classroom Unit | | | X |
| Oklahoma | Pupil Weights | Disabling Condition | | | |
| Oregon | Pupil Weights | Special Ed. Enrollment | | X | |
| Pennsylvania | Flat Grant | Total District Enrollment | | X | |
| Rhode Island | % Reimbursement | Actual Expenditures | | | X |
| South Carolina | Pupil Weights | Disabling Condition | For 85% of funds | | |
| South Dakota | % Reimbursement | Allowable Costs | X | | X |
| Tennessee | Resource-Based | Classroom Unit | | | X |
| Texas | Pupil Weights | Type of Placement | X | X | |
| Utah[2] | Pupil Weights | Type of Placement | X | X | |
| Vermont[3] | Flat Grant | Total District Enrollment | | X | |
| Virginia | Resource-Based | Classroom Unit | | | |
| Washington | Pupil Weights | Special Ed. Enrollment | X | X | |
| West Virginia | Flat Grant | Special Ed. Enrollment | X | | |
| Wisconsin | % Reimbursement | Allowable Costs | X | | |
| Wyoming | % Reimbursement | Actual Expenditures | | | X |

TABLE KEY

**Pupil Weights**: Two or more categories of student-based funding for special programs, expressed as a multiple of regular education aid.

**Resource-based**: Funding based on allocation of specific education resources (e.g., teachers or classroom units). Classroom units are derived from prescribed staff/student ratios by disabling condition or type of placement.

**% Reimbursement**: Funding based on a percentage of allowable or actual expenditures.

**Flat Grant**: A fixed funding amount per student or per unit.

[1]Formula also contains a substantial flat grant allocation for selected disabling conditions.
[2]Formula amounts are now frozen and are based on allocations in prior years.
[3]Vermont's special education funding formula also contains a substantial percent reimbursement component.

Source: CSEF Survey on State Special Education Funding Systems, 1994–95.



BEST COPY AVAILABLE

- Rising special education costs and enrollments. Many, but not all, states are concerned about rising costs and enrollments. Pennsylvania is one state that specifically designed its reform to address these, as well as other, policy concerns.

**To Add Flexibility, Florida is Testing a New Student Education Finance Program Model**

This new program is being piloted in 20 schools across the state. It was designed in response to concerns that some of the state's schools have pushed the current system as far as it can go in terms of flexibility and now face limitations in designing appropriate program options. State Department officials describe major barriers to program reform under current state regulations. First, the current system, which is based on categories of disability, provides weighted funding using 15 separate cost factors. The differences between many of the weights are minimal.

In addition, a student with an exceptionality must be served in a classroom made up only of exceptional students. This requirement, along with certification policies, clearly discourages mainstreaming strategies and the use of local flexibility to ensure that students are served in the most appropriate and least restrictive setting.

The new system attempts to remove these barriers and to add flexibility through the use of a matrix of student learning characteristics and service requirements. Depending on disability characteristics and the nature of required services, all special education students are assigned a specific cell within this matrix. The cell location determines the amount of funding a student will generate. In this way, funding is independent of disabling category or placement. However, incentives to assign children to higher revenue cells remain. Whether these incentives will have adverse affects on student assignments or service patterns remains to be seen.

- Concerns over the efficiency of special education services. Studies have shown that only about 62% of the special education dollar is being used to provide direct services to students (Moore et al., 1988; Shields, Jay, Parrish, & Padilla, 1989). As a result, questions are being raised about whether too much is being spent on such support activities as program administration. The Oregon reform represents an attempt to cut through some of the program's paperwork requirements, thereby raising program efficiency.

### Pennsylvania: Controlling Special Education Costs and Enrollments

The two primary objectives of reform were stabilizing special education costs and enrollment, and affecting practice. Previously, Pennsylvania was the only state funding 100% of the "excess cost" of educating children with disabilities. During the 1980s, despite massive declines in Pennsylvania's general education school-age population, substantial growth was experienced in the number of students served in special education. In the late 80s, studies revealed such problems as too many referrals for special education, too long a wait for evaluations, too many placements in programs for mild learning disabilities, too little movement back to regular education programs, too much segregated programming, and too little connection between the special and regular education programs (Feir, 1992). Rising costs from the growth in special education enrollments put a strain on the state budget, with no apparent end in sight.

Inclusionary practices were also inhibited under the excess cost system. Students were counted in full-time-equivalent (FTE) average daily memberships, with the net effect of crediting special education only for the time that students were in special education programs. This created a fiscal incentive to maximize the percentage of time students were in special education settings. These regulations also imposed a burdensome bureaucratic procedure on districts to monitor each student's time in special education on a weekly basis.

In 1990 the Governor proposed an alternative system. Funding is now provided to districts based entirely on the average daily membership (ADM) of all students. The new funding system is designed to end fiscal incentives associated with special education placement and to give districts greater control over special education program and funding decisions. The new system was presented as a major change in the philosophy of financing special education, as a concerted effort to empower school districts, and as a control to runaway costs.

- High cost of special education assessment and program administration. The average special education assessment costs $1,206 per student (an estimated $1,648 in 1995/96 dollars), as reported by Moore et al. (1988). It is used primarily to determine whether a student does or does not qualify for special education services. After a student is placed in special education, teachers often report that their first activity is to reassess the student to determine his/her instructional needs because expensive eligibility

**Oregon: Reducing Administrative Burden/Removing Placement Incentives**

Oregon's prior financing method for special education was described as "patchwork" and "piecemeal" rather than the result of thoughtful planning (K.Brazeau, personal communication, 1993). Over the years, this system was blamed for creating a "tremendous paperwork burden" at both the state and local levels. Also, because the old funding system did not take into account a district's ability to pay, higher spending districts were receiving a greater proportion of state reimbursement than lower spending districts. In addition to enhancing equity, the state's objectives for reforming the special education funding system included simplicity, efficiency, reduction of paper-work, and placement neutrality.

The new system provides funds for special education by granting districts two times the regular per student allocation for every identified special education student (i.e., a funding weight of 2.0), up to 11% of the total school population. This double weighting formula was derived from research showing special education costs per student to equal approximately twice the cost of regular education (Moore et al., 1988).

This new formula does not require districts to engage in any more paperwork than that required under federal law. The new formula also does not require that the funds targeted for special education be used only on students with disabilities. The intention of this feature of the law was "to provide schools with the funds necessary to educate all students, whether disabled or not" (K. Brazeau, personal communication, 1993).

assessments are not useful for this purpose (Shields et al., 1989). This raises questions about the usefulness of such assessments for students who are not determined to be eligible for special education services, as well as for many students who are deemed eligible.

Based on the belief that some students with special needs could be served as effectively, and much less expensively, outside of special education, many states are turning to such interventions as Instructional Support Teams (ISTs).[4] These teams specify pre-referral intervention activities for students referred for learning or behavior problems. These pre-referral interventions are offered to students for whom special education eligibility is uncertain, and students are only referred for special education assessment if these types of alternative interventions prove to be unsuccessful.[5]

- Strict categorical nature of special education services. Categorical funding refers to dollars which are allocated for a specific purpose and which generally have strict limitations on how they can be used. An important issue in special education finance is how strictly categorical these dollars should remain. For example, as noted by a former Director of Special Education in Florida, "When over one-half of our students qualify for at least one type of special, categorical program, it is no longer clear that it makes sense to refer to them as special."[6] Through some of the provisions specified in the federal Goals 2000 legislation[7] and for "schoolwide projects" under the federal Title 1 program,[8] the separation of educational programs through strict categorical provision is increasingly being challenged. The efficiency of the multiple administrative and service structures necessitated by this type of program separation is questioned, with reform advocates calling for increased flexibility through the blending of funds to best meet the special needs of all students.[9]

**Pennsylvania: Using Instructional Support Teams (ISTs)**

The most significant programmatic change accompanying finance reform in Pennsylvania was the requirement that an IST, comprised of the student's teacher, the principal, and a specially trained instructional support teacher, be the first to intervene and develop instructional strategies prior to referral for a special education evaluation. ISTs were described as the linchpin of the financial reform package.

During the phase-in, participating schools were to receive grants of $30,000 per year to hire an IST teacher. This teacher is responsible for leading the IST process at the school and for providing any interim interventions that the team may recommend. The program also called for the state to provide an intensive year of training for all school staff.

It was expected that local districts would be able to support the cost of IST teachers through savings from this reduction of direct special education services. An independent assessment of the IST process in Pennsylvania concluded that it has indeed turned out to be "cost-effective" (Hartman & Faye, 1996).

- Fiscal policies that work at cross purposes with special education inclusion policies. Questions are increasingly being raised about the relationship between restrictive placement patterns and special

education funding policies. An extreme example was recently reported for New York State, where at the beginning of each week, a 12-year old student with disabilities rides over an hour to get to the local airport to be flown to a special residential placement located at the opposite side of the state. At the end of the week, he repeats this route at a cost to the state in excess of $100,000 per year. This continues despite the obvious difficulties for the student and the arguments presented by the student's district of residence. Under the state's current fiscal provisions, the district must provide financial support for this placement despite district arguments that they could provide equally appropriate services at home for a much lower cost (Schnaiberg, 1995).

Many states are now examining their special education funding systems to see if they contain disincentives to inclusionary practices. While funding policy should be designed to foster the state's programmatic priorities, the reality is often the opposite. The National Association of State Boards of Education (NASBE) released a strong policy statement, *Winners All: A Call for Inclusive Schools* (1992). It advocates a shift in education policy to foster the development of well integrated services for all students. It argues that the linkages between funding, placement, and disability labels, which have traditionally provided the foundation for special education funding, must be broken.

Program decisions are sometimes affected by the incentives and disincentives created through the state's funding system. In Vermont, for example, the state director describes several decades in which statewide commissions and workshops had a limited impact on state goals for educating students with disabilities in less restrictive settings. However, after Vermont moved to its new funding system where dollars were not tied to more restrictive placements, according to the State Director of Special Education, the sentiment supporting more restrictive, high-cost placements diminished considerably.[10]

# PART 2 STATE AND FEDERAL REFORM INITIATIVES

**How are governments addressing the issues of special education financing?**

Common themes driving special education finance reform are concerns over rising costs, the efficient use of resources, and the relationship between fiscal and program policy. In response to some of the previously discussed areas of concern (e.g. rising costs, inefficient use of resources, the relationship between fiscal and program policy), state and federal policy makers have been forging new reform initiatives. Some of these provisions are described below.

- A new alternative: census-based funding. One of the predominant themes in special education finance reform found at the federal level and throughout the states over the past five to ten years is census-based funding.[11] These finance systems are based on total enrollment rather than on special education counts. For example, under a state-level census-based funding system, districts with identical student enrollments receive the same special education aid regardless of the number of students placed in the program, the disabilities of these students, where they are placed, or how they are served.

The rationale for adopting such a system is that the prior, more traditional funding mechanisms may provide fiscal incentives for identifying more students, for designating them in higher reimbursement categories of disability, or in higher cost placements. Census-based approaches are often thought to be free of such incentives. However, in reality, incentive free systems do not exist. For example, while a census-based system may remove incentives for identifying more students for special education and for assigning them to high cost placements, it can be argued that they create new incentives not to identify students for special education and to use lower cost placements. Accordingly, census-based systems have not escaped the controversy that lately appears to be associated with nearly all special education financing alternatives. Some of the pros and cons associated with census-based systems follow.

### Arguments Supporting Census-Based Funding

- Working outside special education is less costly. As suggested earlier, the special education assessment and referral process is costly, and studies show that in many cases the tests and methods for classifying students provide little information useful in planning instructional programs for these students (Lovitt, 1967; Shepard & Smith, 1981; Ysseldyke, Algozzine, Richey, & Graden, 1982).

- Some students may be better served outside special education. Special education programs, as traditionally designed, tend to isolate students in more segregated placements (e.g., pull-out programs or special classes). Labeling students tends to stigmatize them for the remainder of their schooling experiences, and perhaps throughout their lives (Parrish & Verstegen, 1994). Once students are placed in special education, they tend to stay in the program (Shields et al., 1989).

- Overidentification is now the major issue. Before the passage of P.L.94-142, large segments of the special education population were being underidentified and/or underserved (Parrish & Verstegen, 1994). Now, however, many states are reporting that *over* rather than *under* identification is their major concern.[12]

- Procedural safeguards would remain in place. Movement to a census-based funding system would not jeopardize any of the procedural safeguards under current law. In addition, all students with disabilities would be protected under Section 504 of the Americans with Disabilities Act (ADA) whether they are labeled as special education or not.

### Arguments Against Census-Based Funding

- The system would not be equitable to states and districts with higher identification rates. A census-based funding system assumes comparable prevalence rates of special education students. States and districts might exhibit higher percentages of special education students because of real differences in the characteristics of students (Baumeister & Klindworth, 1990; Hallahan, 1992; Verstegen, 1991). Even where student populations are comparable, states and districts may have been especially proactive in setting up programs for special needs students and census-based funding systems penalize those very districts that have been most responsive to the state and federal call to identify and serve all special education students.

- Procedural safeguards cannot be maintained if students are not identified as having special needs. Census-based funding would create fiscal incentives to underidentify students with disabilities, abridging their right to a free and appropriate education.

- A retreat from the traditional federal role of fostering and promoting special education services would occur. The federal role in special education has been one of leadership for, and protection of, students with disabilities. The states have been encouraged to "seek and identify" all eligible students. A census-based funding system would send a message to states and communities that the federal government is backing away from this position.

- Fiscal accountability would be jeopardized. Because funds would not be earmarked for the exclusive use of disabled students, a census-based funding system would reduce assurances of fiscal accountability at a time when such controls are seen as increasingly important by taxpayers.

- Current levels of special education funding would be threatened. Traditional levels of support for special education services would likely diminish when they can no longer be attributed to specific special education students with legal entitlement.

In reviewing these arguments, it is important to note that they are meant to reflect sentiments often expressed in discussions of the potential merits and demerits of such a system. As such, they do not necessarily reflect the opinion of the author, nor are they necessarily based on fact. Where research is available to support these assertions, citations have been provided.

Although these arguments apply to the states as well as to the federal government, the discussion is generally couched in terms of

a change in federal policy. The 1997 Amendments to the Individuals with Disabilities Education Act (P.L. 105-17), signed into law on June 4, 1997, includes provisions moving federal IDEA funding to a census-basis over time.[13] One reason for this federal reform was that reform states expressed concerns that the prior federal funding provisions under the IDEA ran counter to state reform efforts designed to enhance the efficiency and effectiveness of special education.[14] Because the IDEA allocation is based on the number of students identified for special education services (up to 12%), states that are serving certain special need students outside of the formal special education system are losing federal funds as their counts of identified students drop (although this will change over time through the reauthorization provisions.) A situation cited in the case of Oregon, which does not have a census-based system, illustrates this problem.

**Respondents Report That Oregon's Single Weight System Retains the Incentive to Identify Students Up to the 11% Funding Cap.**

Oregon's new special education finance system specifies a single weight for special education students. However, for funding purposes the percent of special education students may not exceed 11% of total district enrollment. A possible problem that has been associated with this system is that special education aid is still tied to the number of students identified for special education services. Because there is no requirement that these funds be spent on special education services, districts have discretion to set up alternative intervention systems such as ISTs.

However, as these systems become effective and special education counts drop, state aid is lost. As a result, phone interviews with local special education directors in Oregon revealed that some of those who had previously incorporated IST-type systems in an attempt to drop their overall special education counts were now being pressured by district administrators to return their identification rate up to the funding ceiling of 11%. Such pressures from the loss of state funds do not exist in census-based funding states because state aid is not dependent on the number of special education students identified. However, because they still lose federal dollars when their special education populations decline, these states tend to support federal movement to a census-based system.

However, although strongly supported by some states and professional organizations ("Winners All," 1992), other states and organizations have refused to embrace the census-based concept.[15]

One major problem associated with census-based systems is that they assume an equal prevalence of students requiring special education services. That is, districts or states of the same size receive the same amount of special education funding under such systems based on an assumption of equal incidence rates for students with disabilities. In contrast, traditional special education funding systems are based on the notion that because some districts and states serve larger percentages of special education students than others, they face higher special education costs and therefore should receive larger allocations of special education aid.

However, the extent to which differences in the actual prevalence or true *need* for special education services are reflected in higher or lower *identification rates* among states or districts is open to challenge. For example, can the special education identification rate for Massachusetts, which is more than twice that of Washington, DC or Hawaii, be explained in terms of vastly differing needs across these areas? (U.S. Department of Education, 1992) Many argue that there is a marked difference between the prevalence of students with disabilities and the varying rates at which districts and states identify special education students. Some examples of factors that could affect varying special education identification rates on the basis of variations in prevalence as opposed to differing local practices are shown below.

Even though the number of students *identified* may be more a matter of school officials' choice than of true prevalence, the concept of allowing for varying needs in the funding formula is compelling. For example, many proponents of census-based funding systems argue that they do *not* assume equal prevalence, but that these systems simply recognize that traditional measures of prevalence (e.g., number of students identified for service) do not work well, and often create perverse identification and placement incentives. Therefore, if the number of students identified for special education is a poor measure of prevalence, what alternative measures might be adopted?

- Adjusting special education funding based on student poverty. In an attempt to find a proxy measure for true prevalence, or the degree of special education need in a district, the reauthorized legislation for federal special education funding includes an adjustment for student poverty.[13] Generally speaking, with such an adjustment in place, a funding amount is determined based on whatever general formula is being used and then these allocations

**Factors affecting special education identification rates based on differences in *prevalence:***

- Larger number of students with severe disabling conditions
- Larger percentage of children with inadequate nutrition or health care
- Location of a state, or regional, home for children with disabilities within district boundaries

**Factors affecting special education identification rates based on differences in *local practice:***

- More or less permissive special education placement patterns for students with mild disabilities
- Availability of remedial education services other than special education
- Relative strength of local special education parents and other interest groups

are further adjusted based on a "poverty factor." Such a factor could take varying forms, but the basic idea is that districts or states with higher percentages of students in poverty receive more special education funds.

Based on data from CSEF, only three states currently have some form of poverty adjustment in place.[16] In addition to now being incorporated into federal law in the U.S., poverty variations are also an accepted basis for adjusting special education aid allocations in Great Britain. What are some of the pros and cons most commonly cited for this approach?

Arguments for and against a poverty adjustment to special education funding present opposite sides of similar themes. For example, while parental reports of disability diminish with family income, no relationship between the percentage of students in poverty and those in special education is observed.[17]Some will argue that the first measure showing a positive relationship between disability prevalence and poverty is weak because it is based on parental reports, while others will argue that the latter relationship showing no relationship between special education and poverty is not strong because it is based on special education identification rather than prevalence rates. Similarly, while some perceive closer ties between education disability and poverty programs as leading to more coherent education policy, others argue that any attempt to remove the distinctions between these two programs places future special education funding in jeopardy.

**Arguments in Favor of Special Education Poverty Adjustments:**

- Substantial evidence suggests that sustained and intensive poverty results in conditions (e.g., poor health and nutritional care, as well as high levels of drug and alcohol abuse for expectant mothers) that lead to larger proportions of the school-age population needing special education services.

- Although differences in poverty may be an imperfect measure of variations in a district's true need in relation to special education services, it may be the best measure beyond a district's control that is available.

- Although the relationship between student poverty and the need for special education services may be somewhat tenuous, districts with high numbers of students in poverty do need more educational services and increasing their special education funding is one way to provide it.

- Based on parental reports of disability, prevalence rates climb as personal income declines (U.S. Department of Education, 1996).

- Other education poverty programs such as federal Title 1 and state compensatory education would be brought into better alignment with the IDEA, appealing to policymakers who call for more integrated approaches across all categorical programs.

**Arguments Opposed to Special Education Poverty Adjustments:**

- A special education poverty adjustment brings into question the most appropriate relationship between special education and poverty driven programs such as state compensatory education and the federal Title I program, potentially confusing the unique roles of these programs.

- Data show that minority students, who are more likely to be in poverty, are disproportionately placed in special education. It has been argued that some of these students are placed on the basis of cultural differences rather than disability. Increasing special education funding to high poverty districts may expand these inappropriate placement practices for minority students.

- The inclusion of a poverty factor for special education may accelerate calls for merging this program with Title 1 into a single block grant to the states or to school districts. Many special educators and parents perceive such a move as a threat to special education.

- The relationship between special education and poverty is unclear. For example, no statistical relationship between the percentage of students in poverty and those in special education is found.

- Current and accurate measures of student poverty at the district level are generally not available across the states. The best nationally available measure is based on census data which are collected every ten years. Free and reduced lunch counts constitute an alternative, but these data are generally not accepted as sufficiently accurate for such purposes.

From a pragmatic perspective, high poverty districts and states are likely to favor such an adjustment while those with a lower incidence of poverty are likely to oppose it. Others see such an adjustment as a possible mechanism for channeling more special education funds to urban centers, where student poverty rates tend to be higher and where special education needs are believed to be greater. This is despite the fact that special education identification rates in urban settings are not higher than those found in more suburban and metropolitan locations.

The real issue may be that students in high poverty districts often do not receive the supplemental, intensive schooling services they require to succeed in school and compete successfully in the job market. Despite education poverty initiatives such as the federal Chapter 1 program, school districts with high percentages of students in poverty do not receive more resources overall than lower poverty districts. In fact, based on data recently produced by the National Center for

Education Statistics (NCES), there is approximately a $2,500 per student average spending differential between the 10% of public school districts serving the nation's wealthiest families as compared to the 10% of districts serving the nation's poorest families (Parrish, 1996). A special education poverty adjustment may be just one more way of getting more resources into high poverty schools. If these resources are tied to a funding system that is not based on special education identification rates and that allows special education resources to be spent on other remedial and support services, a special education poverty adjustment could benefit students in high poverty districts. On the other hand, policies that are implemented in a way that could encourage the over-identification of high poverty students for special education services may do more harm than good.

• Removing fiscal incentives for restrictive placements. A third important issue at the federal and state levels relates to state funding mechanisms that contain incentives for serving special education students in more restrictive settings, which is counter to the least restrictive environment (LRE) provisions of the IDEA. For example, some state formulas allow for generous reimbursement to school districts when students are placed in private or regional public settings. However, these formulas do not offer comparable assistance for the establishment of programs in neighborhood schools. In other words, these dollars are not always able to follow students into the less restrictive settings that may be better suited to their education needs. Other states may offer alternative funding levels for placement in specialized settings, but do not include the general education classroom as a placement option. These types of provisions create a disincentive for placing special education students in the least restrictive environment.

OSEP has initiated challenges to states with such restrictive funding provisions through its monitoring system. In addition, the reauthorized IDEA requires states to demonstrate that if the state special education funding formula distributes assistance to localities based on the type of setting in which a child is served, the state has policies and procedures to assure that these funding provisions do not result in placements that violate the requirement that children with disabilities be served in the least restrictive environment (LRE). If such policies are not in place, the state must provide the Secretary with an assurance that it will revise the funding mechanism to ensure that it does not result in restrictive placements.

As many states attempt to remove fiscal provisions encouraging restrictive placements, a few states have developed finance policies that actually encourage more inclusive placements. One such example is Florida.

### Florida's Current Funding System Adds Mainstreaming Weights

Florida has added "mainstreaming weights" to its funding system over the past several years to allow additional funding for students who receive special education services in general education classrooms. According to a Florida Department of Education spokesperson, these new weights "represent a commitment to mainstreaming and to pay for the support that special education students need " when served in general education classrooms. In addition to the state's traditional funding weights for special education, which are based on categories of disability, mainstream weights have been added for grades K-3, 4-8, and 9-12. These mainstreaming categories appear to set the Florida special education funding system apart from all other states with weighted funding systems in that Florida specifically includes a weight for special education students served in general education classes.

This type of system represents an important attempt to break through what is recognized as insufficient flexibility in many of the current cost-based systems to encourage general classroom placements. On the other hand, as described by the Department, these new weights have a "potential for abuse because they are not based on true excess costs." Unlike the other Florida funding weights, these weights are not based on the actual costs of mainstreaming exceptional students, but are simply derived by doubling the program weight for each of the three grade ranges for "basic" programs.

- Changes in the federal "incidental benefit" rule. This change in the reauthorized federal law, relating to the concept of fiscal accountability, also has implications for the placement of special education students in general education classrooms. The prior "incidental benefit" rule required schools to keep track of how much time special educators spent in regular classes to ensure that IDEA-funded teachers did not provide instruction to non-disabled students. Through the reauthorized law, special educators are permitted to provide incidental benefits to non-disabled students when serving disabled students according to their IEP's. The prior rule tended to provide a disincentive for serving students with

and without disabilities together in general classroom settings, as was expected in a truly integrated setting.

The genesis of the prior policy is related to the implementation of the federal Title 1 program. A major emphasis of this program is that these categorical funds must be used to supplement and not supplant existing programs and funding. This led to a very close accounting of how Title 1 resource teachers were used (i.e., only providing supplemental assistance to Title 1 eligible children.) These same principles and concerns carried over to the implementation of the IDEA.

Renewed emphasis on the inclusion of special education students with disabilities led to heightened concerns that this fiscal accountability mechanism might be hindering program goals. There is little evidence that the prior rule really acted as much of a constraint on local practice because of the relatively small federal share of overall support. However, the new, more relaxed standard may have symbolic importance for promoting program coordination and enhancing the integration of special education students.

- Blended funding and service provision. This issue is at the heart of the education reform movement and is central to the current special education finance debate (McLaughlin, 1995; Verstegen, 1995). A critical question that confronts the development of future fiscal policy in special education is whether funding should retain its purely categorical nature. There is a natural tension between separate, highly categorical funding streams and overall education reform objectives favoring more "unified" schooling systems (McLaughlin & Warren, 1992). In such systems, the strict barriers between categorical programs begin to disappear and are replaced by a more seamless set of educational programs and services designed to meet the special needs of all students.

An example of blended funding has been established under Title I of the Elementary and Secondary Education Act. High poverty schools are allowed to blend funds from a variety of federal sources to make schoolwide changes for the benefit of all students. However, prior to the reauthorization, federal special education funds under the IDEA were specifically excluded from this provision. A number of policymakers and professional groups, including the Council of Chief State School Officers (1994) and the National Association of State Directors of Special Education

(NASDSE), have called for the inclusion of special education in this blended funding option for schoolwide projects. According to a NASDSE statement, "Combining funds provided under IDEA and the Elementary and Secondary Education Act's Title 1, while maintaining IDEA's procedural safeguards ... could permit special educators to better participate in the reform process" (NASDSE, 1994). As a result, under the reauthorized IDEA federal special education can now be included among the funds to be blended in schoolwide projects.

However, these provisions only apply to schools in which fifty percent or more of the students are designated as living in poverty and which apply for schoolwide status. In addition, many parents of special education students are concerned about blending special education with other categorical funds into a single block grant. Even those favoring the principles of unified schooling and more integrated approaches to categorical program provision do not necessarily favor the removal of separate categorical funding streams. However, McLaughlin's (1995) case study analysis of consolidating program resources suggests a more integrated approach can be achieved without block granting or the blending of funds. Rather than concerns about the disaggregation of funds at the district level, added flexibility is observed at the classroom level where accountability is less focused on ensuring how teachers spend their time than on whether students are making progress and that the services specified in the IEP are being delivered.

The findings from McLaughlin's report would seem to point the direction for new state and federal initiatives in this area. She finds that efforts to promote greater flexibility and coordination among programs in school districts are successful in large part due to a combination of strong local leadership and state-level assistance. Traditionally, school districts have been held closely accountable for ensuring that eligible students were indeed receiving extra educational services. Now, however, under the aegis of school reform efforts, a more powerful type of accountability is emerging, which is accountability for improved student performance on critical educational outcomes. While the relaxation of some fiscal accountability standards, as described above under the change in the incidental benefit rule, may facilitate more unified schooling efforts, it appears that the major efforts that are needed

to bring about these types of reforms are in the form of state and federally sponsored training and through the development of local leadership.

### How does the method of special education funding affect instruction and services?

It has long been recognized that appropriate instructional programs and related services cannot be provided without adequate financial support. A newer concept is that *the mechanisms of educational financing may be as important as the amounts allocated in shaping the provision of programs*. Even the simplest funding systems contain incentives and disincentives that directly influence the orientation, quantities, and types of services provided at the local level. Consequently, an important principle in developing funding mechanisms that foster effective programming is that they support the state's instructional program objectives.

### What criteria must states consider when developing funding systems to foster effective special education funding?

Table 3 presents a set of criteria, or standards, that have traditionally been used in considering alternative ways of allocating special education aid to local jurisdictions. States attempting to forge new special education finance structures will repeatedly encounter tension between some of these competing policy criteria. A major focus on one criterion may in fact come at the expense of one or more of the others.

Examples of possible conflict among these criteria include:

- Provisions that increase *flexibility* will often decrease *accountability*, and may also bring standards of program *adequacy* into question. A formula that is *easy to understand* and that reduces *local reporting burden* may not be the most effective at allocating limited special education resources where they are most needed.

- A highly *equitable* system might be considered to be one that is tightly linked to variations in local costs of providing special education services. Districts that spend more on special education services because their resource costs are higher, because they serve more students, or because they serve students with more severe needs, would receive more state aid in recognition of these cost differentials. On the other hand, such a system may also have a

**TABLE 3. CRITERIA FOR EVALUATING STATE SPECIAL EDUCATION FUNDING FORMULAS[1]**

*Understandable*
- The funding system and its underlying policy objectives can be understood by all concerned parties (legislators, legislative staff, state department personnel, local administrators, and advocates).
- The concepts underlying the formula and the procedures to implement it are straightforward and avoid unnecessary complexity.

*Equitable*
- Student equity: Dollars are distributed to ensure comparable program quality regardless of district assignment.
- Wealth equity: Availability of overall funding is not correlated with local wealth.
- District-to-district fairness: All districts receive comparable resources for comparable students.

*Adequate*
- Funding is sufficient for all districts to provide appropriate programs for special education students.

*Predictable*
- LEAs know allocations in time to plan for local services.
- The system produces predictable demands for state funding.
- SEA and LEAs can count on stable funding across years.

*Flexible*
- Local agencies are given latitude to deal with unique local conditions in an appropriate and cost-effective manner.
- Changes that affect programs and costs can be incorporated into the funding system with minimum disruption.
- Local agencies are given maximum latitude in use of resources in exchange for outcome accountability.

*Identification Neutral*
- The number of students identified as eligible for special education is not the only, or primary, basis for determining the amount of special education funding to be received.
- Students do not have to be labeled "disabled" (or any other label) in order to receive services.

*Reporting Burden Reasonable*
- Costs to maintain the funding system are minimized at both local and state levels.
- Data requirements, recordkeeping, and reporting are kept at a reasonable level.

*Fiscally Accountable*
- Conventional accounting procedures are followed to assure that special education funds are spent in an authorized manner.
- Procedures are included to contain excessive or inappropriate special education costs.

**TABLE 3. CRITERIA FOR EVALUATION STATE SPECIAL EDUCATION FUNDING FORMULAS (CONTINUED)**

*Cost-Based*
- Funding received by districts for the provision of special education programs is linked to the costs districts face in providing these programs.

*Cost Controlled*
- Patterns of growth in special education costs statewide are stabilized over time.
- Patterns of growth in special education identification rates statewide are stabilized over time.

*Placement Neutral*
- District funding for special education is not based on type of educational placement.
- District funding for special education is not based on disability label.

*Accountable for Outcomes*
- State monitoring of local agencies is based on various measures of student outcomes.
- A statewide system for demonstrating satisfactory progress for all students in all schools is developed.
- Schools showing positive results for students are given maximum program and fiscal latitude to continue producing such results.

*Connected to General Education Funding*
- The special education funding formula should have a clear conceptual link to the general education finance system.
- Integration of funding is designed to encourage "unified" schooling services.

*Politically Acceptable*
- Implementation avoids any major short-term loss of funds.
- Implementation involves no major disruption of existing services.

Adapted from *State Funding Models for Special Education* (Hartman, 1992) and *Policy Objectives for Special Education and Funding Formulas* (Parrish, forthcoming).

fairly substantial *reporting burden*, may lack *flexibility*, and may not be neutral in regard to placement ( i.e., may create a fiscal incentive for more restrictive placements).

Because these special education funding criteria may often conflict with one another, it is important for federal, state and local policy makers to determine which of the general values embodied in these criteria they most want to foster in the development of special education program policy. The goals and objectives of reform should be delineated as clearly as possible prior to any attempts to develop new fiscal policy.

For example, integrated service models conceivably can be fostered within the context of any basic funding model. Whether this actually occurs, however, will depend on the specific implementation details associated with the model, and will require a careful definition of the exact practices to be fostered under the proposed set of program reforms. Is the policy goal to increase the number of special education students in general classroom placements (see description of Florida's mainstreaming weights)? Or is the primary desire to increase the number and types of services to be provided students outside the context of special education (see description of Pennsylvania's ISTs)? Alternately, if the primary goal is to reduce the number of students placed in special education, a census-based system may be the best policy solution (see description of the Pennsylvania finance model). These different policy objectives will require somewhat different fiscal remedies. If the goal is to realize all of these changes, some combination of these fiscal policies will be needed.

In shaping appropriate fiscal policy, it is important to identify the related program reform objectives as precisely as possible. Given the strong link between fiscal and program policy, program objectives must be well considered and carefully defined prior to any serious consideration of fiscal reform. In addition, as program priorities and goals are likely to change over time, periodic reassessment and reformulation of finance provisions will be needed. Vermont's special education finance reform provides a good example of clearly defining goals, crafting specific policy interventions to meet them, and evaluating the effects of finance reform on students, teachers, and families.

**How can state fiscal policies encourage integrated service**

While states must make some difficult choices among the criteria listed above, an area of fiscal policy development that is much less ambiguous is removing fiscal incentives for restrictive placements. Because federal special education law under IDEA states that special education students should be served in the least restrictive environment, fiscal incentives promoting such restrictiveness clearly violate this principle under federal law. Given this policy requirement, what types of fiscal policies can states adopt to remove these incentives and to foster more integrated special education services?

- First, fiscal incentives favoring segregated and separate placements must be removed. Theoretically this could be achieved under any type of special education funding system. Even systems that are driven by type of student placement could conceivably

### Vermont: Increasing Flexibility and Inclusion While Reducing Identification

Act 235, passed in May 1988, made far reaching changes in the way special education was funded. It established a three-part system in which the state and local districts were to share equally in the overall costs of providing special education services. The new formula no longer funded specific programs; instead, it reimbursed districts for portions of their special education expenditures, after distribution of a block grant based on the number of students eligible for special education. Districts received the same reimbursement regardless of student placement in local schools, regional classes, or residential facilities. "Almost immediately, most of the regional special classes disappeared as students were returned to their local schools" (Kane & Johnson, 1993, p. 5). Although placement neutral, this formula still provided an incentive for identifying students as eligible for special education, as the block grant based on the number of special education students identified was the only sure way for a school to get funds to provide support services for students.

In 1990, Act 230 took the "next logical step," changing the funding system so that the block grant portion was based on total student membership rather than special education student counts (i.e., a census-based system) (Kane & Johnson, 1993, p. 6) It was also different from Act 235 in that it allowed funds to be used on remedial and compensatory education. The primary goal of Act 230 was to increase the capacity of schools to meet the needs of all students. This was accomplished through staff development opportunities, changes in the special education funding system to add flexibility and remove incentives for identifying students as eligible for special education, and by restructuring at the school level to develop a more comprehensive system of educational services. Act 230 called for implementation of a schoolwide Instructional Support System (ISS) for early identification of at-risk students and for school-level Instructional Support Teams (ISTs) to support teachers in collaborative problem solving of classroom issues. Act 230 also set aside 1% of the state special education appropriation for inservice training grants to school districts. The new system allowed districts complete latitude regarding the use of funds, so that configurations of services across the state developed uniquely in each district (R. DiFerdinando, personal communication, December 1993).

With the passage of this landmark legislation, the state initiated an evaluation of its effects on students, teachers, and parents. The findings from this report showed positive impacts for all three populations (Vermont Department of Education, 1995).

develop a weighting structure that would foster greater integration through the creation of separate weights for general education placements (e.g., see description of Florida's mainstream weights). Thus far, however, most states attempting to reduce the number of restrictive placements have shown a greater inclination to move toward funding systems that do not differentiate funding based on student placement.

- Second, states must make decisions about the extent to which they wish to encourage the use of separate public or private special education schools. Because separate schools tend to be more restrictive, some states may decide to create fiscal disincentives for their use. Other states may decide that these schools are an integral component of the continuum of placements and should not be discouraged. Regardless, it is difficult for states to rationalize fiscal incentives *favoring* separate schools (i.e., state funding systems with incentives for the use of separate public or private schools over comparable local neighborhood public placements). In some states, however, such provisions are clearly in place. Although comparable services currently may not be available in these states, in some cases this is simply because districts have never been allowed the option of developing comparable, or perhaps superior, programs and services.

- Third, as the separate schooling issue demonstrates, it is important to develop funding systems in which dollars follow students as they move to less restrictive placements. Another example, as cited earlier, is the need for savings in transportation costs to follow special education students to their neighborhood schools to offset other types of costs associated with this type of move, (e.g., making neighborhood schools more accessible). This is an issue for states as they try to foster integrated program practices and for districts as they try to implement them. Districts may have internal mechanisms for resource allocation in place that support places rather than students. In addition, as students move from specialized to neighborhood schools, districts will also need to rethink their internal systems for allocating special education resources to individual schools.

- Fourth, states must support direct training for these types of program interventions. As fiscal disincentives favoring segregated services are removed, instructional and administrative staff (including certified and noncertified general and special educators)

must be provided with training and assistance in overcoming the many practical difficulties associated with making changes of this type.

- Fifth, states should fund and encourage alternative educational intervention systems for all students. Students who are identified as eligible for special education because this is the only way to provide them with remedial services have had their service options restricted. (See descriptions of the Pennsylvania and Vermont reforms.) Greater program integration should include retaining students in general education who do not require the additional protections and legal guarantees associated with special education. States with funding systems that actively support unified schooling options, and that encourage the development of alternative interventions that can be applied to all students will be less likely to have program placements that are unnecessarily restrictive.

**How have some states been able to overcome difficulties in implementing fiscal reform policy?**

As shown in Table 2, many states attempting to change their funding systems have not yet been successful. For example, after considerable study, major changes have been proposed for California, Illinois, and New York. Thus far, none has achieved the political support needed for adoption.

The following section reports on the strategies employed in those states in which reform has been successfully implemented: Pennsylvania, Vermont, and Oregon. Although the exact nature of the reform adopted differs in all three states, common themes emerged from the implementation strategies as reported by the state special education directors at the time these reforms were adopted. Hopefully, some of these strategies can be of assistance to the many states currently trying to bridge the chasm between policy development and adoption.

- Timing. Several common themes emerge from the three sets of perspectives. In each of these three states, timing seems to have been an important factor. Pennsylvania's director reported that "the enormity of the problem itself led people to take the risk and deal with it." Oregon policymakers were unable to make changes until they had a "real crisis in hand with school funding in general." Vermont reported working on issues related to inclusion for over a decade before realizing the extent to which the old finance system

may have been an obstacle. In addition, Vermont has worked through three separate phases of finance reform to get where it is now. The message seems to be that even though the need for change may seem clear, countervailing pressures against change are always present and are generally formidable. Timing appears to be an important factor in overcoming these pressures and successfully implementing special education finance reform.

- Public relations. This seems to be a second important feature of successfully legislating reform. In all three states, broad-based initial involvement was followed by well-developed briefings across the states. As reported by Michele DeSera of Pennsylvania, "It's really important that in the public relations period your key legislative leaders and their key staffers understand this it's a very complicated issue" (personal communication, 1993).

- Politics. An understanding and resolution of the politics of the situation is reported as another key factor. In Pennsylvania, last minute adjustments to the proposed formula were needed to avert its political demise. In Oregon, it was necessary to convince lobbyists that it was in their best long-term interests to relinquish some of their power by demystifying and simplifying the formula. In Vermont, the political issues that were raised related to the potential loss of political power after the formula was made less categorical. The politics of obtaining the required levels of funding for special education services have often traditionally relied on easily identifiable categories of children with special needs and their parents. It was essential to convince the reform participants that it was acceptable to move beyond this traditional power base.

- Post-reform evaluative data. The retention of political clout in a less categorical world seems to lead to the last common element of successful reform, the need for post-reform evaluative data. All three of the reform states moved to simpler funding approaches that were much less tightly tied to program costs as a basis for funding. All three reported a general loss of information in accordance with the adoption of such systems. With more flexibility in the use of funds and more students receiving services on a pre-referral basis, it was less clear exactly how many students were receiving services, as well as the exact nature and cost of these services. As a result, all three states reported the need for alterna-

tive data sources as well as for different types of information.

As reported by Dennis Kane of Vermont, "I would recommend for people to start an evaluation process early on. Because the final purpose of any funding change is to end up doing better things for kids, you need to be able to demonstrate increased benefit for individual children and families" (personal communication, 1993). In Pennsylvania, state special education finance reform was also followed by an independent research effort. According to the state director, "This was a very good tool for us in going back to the General Assembly" (personal communication, 1993). Karen Brazeau, a former state director of special education in Oregon comments, "It is important to be able to come up with facts, because there will always be horror stories ..." about how some districts were negatively affected by these changes (personal communication, 1993).

**What is the future of special education finance?**[18]

The special education population has consistently grown at a faster rate than the population of general education students. Add to this the prediction that the general education population will grow by over 10% over the next 10 years and the estimate that special education expenditures per student have been growing at a faster rate than general education expenditures, and it is not hard to imagine considerable strain on special education budgets over the next decade.

In addition to these growth trends, other factors may also fuel special education growth in the future. These include (a) increasing numbers of young children being served through the Preschool Grants and Infants and Toddlers with Disabilities programs; (b) possible further expansion in eligibility criteria for special education; and (c) rising rates of sociodemographic indicators (e.g. increased numbers of children in poverty, incarcerated, or in single parent households) present among the new school-aged population that often act as predictors of disabilities in children and youth. Continued expansion of the special education population is also likely to be driven by such regular education reforms as increased academic standards and emphasis on assessment. As educational expectations rise, more students are seen as being in need of support services. This expected growth in the special education student population will further escalate the costs of special education instructional programs, and will increase the need for such infrastructure requirements as facilities, equipment, and personnel.

At the same time that the need for future programs and services is predicted to escalate appreciably, the demand for services already may be outstripping availability in some states. In addition, with the general wave of fiscal conservatism sweeping the country, it is difficult to imagine considerable growth in special education support. This suggests a minimum of new services and a continued restructuring of current programs in an effort to achieve greater efficiency (National Governors' Association and National Association of State Budget Officers, 1994).

Given the trends of increasing demand for services and growing fiscal conservatism, a crossroad in special education policy may be upon us or approaching quickly. Current state interest in restructuring education is likely to continue to build, and will focus on efforts to increase the effectiveness of, as well as to contain expenditures on, programs for children with disabilities. If services are restructured, choices must be made about what changes should occur and which programs and services should be affected.

However, the current period of fiscal stress also presents opportunities. Several states are using the budget crisis as an opportunity to look more closely at the effectiveness of programs and services with an eye towards pruning the least efficient while restructuring existing services for greater effectiveness. For example, some states are examining the high cost of uniformly providing special education assessments to students with learning problems prior to the provision of support services. The challenge will be to balance the diverse education needs and rights of all students against limited financial resources.

**How is special education finance reform related to other elements of school reform?**

While fiscal policies that conflict with reform goals can hinder program reform, it is important to recognize that changes in fiscal policy alone are generally insufficient to result in program change. States reporting the most success in coordinating program and fiscal reform emphasize the need for financial incentives, or at least the removal of disincentives, as well as the provision of a comprehensive system of professional development and ongoing support to effect the desired changes.

Accountability questions are also integral to any discussion of special education finance reform. In this era of fiscal conservatism, increased demand for services, and heightened scrutiny of measures relating to

### Special Education Growth: The Case of Florida

Florida's total population growth rate between 1980 and 1990 has been described as "bordering on the pathological," at 32.7% as compared to 9.8% across the nation. Over the period 1976-77 through 1994-95, the number of special education students in Florida increased by 151% compared to a national rate of 47% (U.S. Department of Education, 1996).

As a result of this growth, Florida was reported to need an additional 2,252 special education teachers during the 1990-91 school year, a deficit second only to that reported by New York (U.S. Department of Education, 1993). And between the 1991-92 and the 1992-93 school years, when the number of special education students grew by 6.7%, the number of teachers only increased by 4%. These data show a widening, rather than a narrowing, gap between the number of special education teachers needed and the number employed.

Other indicators of a continued rise in the percentage of students in the state who will be in need of exceptional student services are the facts that Florida is among the top 10 states in low birthweight babies and above the national average in the number of mothers receiving little or no prenatal care and in the number of births to teenage mothers. These data suggest that funding increases for exceptional student programs will be needed just to stay even with current levels of service.

However, raising the needed support is likely to be an especially difficult challenge given the fact that Florida ranked 49th among the states in terms of the percentage of population under 18 and first in population over 65. During the 1990s, this discrepancy is predicted to increase. These demographic trends will place additional strain on Florida's resources for elderly citizens, suggesting heightened competition between the elderly and the state's school children for access to the public dollar. Less than one-quarter of Florida's households currently have children in the public schools. If this percentage continues to decline as predicted, it is likely that Florida schools will face considerable challenges in garnering needed financial support (Florida Department of Education, 1993).

education efficiency, concepts of accountability are more important than ever. They are also believed to be an essential component of policies relating to enhanced educational flexibility in the use of funds. As we relax traditional accountability measures to allow for more flexibility and freedom in the use of funds, what will replace them? Even special education advocates who support enhanced flexibility in the use of funds express concerns about replacing traditional accountability measures with simple trust.

At the same time, there has been clear recognition of the limitations of traditional accountability mechanisms. Especially in the categorical program areas, accountability checks have been more concerned with the *legal* use of funds than whether they are being used *well*. The linkage between student eligibility, student counts, and funding would certainly be less important if accountability systems were devised and implemented that could clearly measure the extent to which the children for whom these dollars are intended are making clear and sufficient educational progress. The development of such results-based accountability systems may well be among the most critical components in the design of future special education finance policy.

# ENDNOTES

1. The Center for Special Education Finance (CSEF) is located at the American Institutes for Research (AIR) in Palo Alto, California. Under a grant from the U.S. Department of Education, CSEF conducts research and publishes policy analyses related to the financing and costs of special education.

2. For further clarification on the derivation of this range of estimates, see CSEF publication, "What are we spending on special education in the U.S.?"

3. Survey done by the Center for Special Education Finance (CSEF), at the American Institutes for Research, Palo Alto, CA.

4. Instructional support teams (ISTs) are also referred to as student assessment teams (SATs) and student study teams (SSTs).

5. For a discussion of cost-effectiveness issues associated with such interventions see Shields et al., 1989; and Hartman & Fay (forthcoming).

6. Address given to Florida Futures Conference held in Tampa, FL. September 16-17, 1994. Note that this reference to special, categorical programs extends beyond special education to include such programs as compensatory (poverty), limited-English proficient, and gifted education programs.

7. Specifies enhanced "worldwide" education standards for America's school children by the year 2000.

8. Title I, formerly known as Chapter 1, provides federal funding to states and to school districts based on the percentage of students in poverty.

9. For a discussion of issues related to this type of blending at the federal and local levels of school governance see the following: Verstegen, 1995; and McLaughlin, 1995.

10. This statement is based on notes from a presentation made by Vermont's State Director of Special Education at the State Data Managers' Conference held in March, 1993 by the Office of Special Education Programs, U.S. Department of Education.

11. For a more thorough description and discussion of this concept see Parrish and Verstegen, 1994.

12. This contention is supported by an overall 29.9% increase in the number of children served in the IDEA, Part B, and Chapter 1 Handicapped programs since the inception of Part B in 1976 through the 1990-91 school year. The 1990-91 school year showed an increase of 2.8%, which is the largest increase in a decade. However, the larger increase in this year is primarily due to the additional availability of early childhood programs.

13. For a full description of the changes under this federal law see "Finance Provisions for State and Substate Grants under the Individuals with Disabilities Education Act 1997 Amendments," by Deborah Verstegen and Thomas Parrish. This CSEF publication is scheduled for release in the Fall of 1997.

14. This information is based on interviews conducted by CSEF staff of the 50 state directors of special education services

15. See, for example, Council for Exceptional Children (CEC). Summary of Administration, House, and Senate IDEA Provisions on Major Issues with CEC Position. (Handout from Keynote speaker, Nancy Safer, Interim Executive Director, CEC). The International Public Policy Conference sponsored by council of Administrators of Special Education, Inc., November 16, 1995, Scottsdale, AZ.

16. These states are Connecticut, Louisiana, and Oregon.

17. Based on data from the U.S. Department of Education, National Center for Education Statistics 1990 Census School District Special Tabulation.

18. This section draws from Parrish and Verstegen (1994).

# REFERENCES


Dillon, S. Special education absorbs school resources. (1994, April 7). The New York Times, A, 1:2.

Gerald, D. E., & Hussar, W. J. (1995). Projections of education statistics to 2005 (NCES 95-169). Washington, DC: U.S. Department of Education, National Center for Education Statistics.

Hallahan, D. P. (1992). Some thoughts on why the prevalence of learning disabilities has increased. Journal of Learning Disabilities, 25, 523-528.

Hartman, W. T., & Fay, T. A. (forthcoming). Cost effectiveness of instructional support teams in Pennsylvania. Palo Alto, CA: Center for Special Education Finance, American Institutes for Research.

Lovitt, T. C. (1967). Assessment of children with learning disabilities. Exceptional Children, 34, 233-239.

McLaughlin, M. J. (1995). Consolidated special education funding and services: A local perspective (Policy Paper No. 5). Palo Alto, CA: Center for Special Education Finance, American Institutes for Research.

Moore, M. T., Strang, E. W., Schwartz, M., & Braddock, M. (1988). Patterns in special education service delivery and cost. Washington, DC: Decision Resources Corporation.

Parrish, T. B. (1996, December). Do rich and poor districts spend alike? (Issue Brief IB-1-96). Washington, DC: U.S. Department of Education, National Center for Education Statistics.

Parrish, T. B., & Verstegen, D. A. (1994). Fiscal provisions of the Individuals with Disabilities Education Act: Policy issues and alternatives (Policy Paper No. 3). Palo Alto, CA: Center for Special Education Finance, American Institutes for Research.

Schnaiberg, L. (1995, September 27). District seeks to pare $136,000 special education bill. Education Week, p. 5.

Shepard, L. & Smith, M. L. (1981). Evaluation of the identification of perceptual-communicative disorders in Colorado. Boulder, CO: University of Colorado.

Shields, P. M., Jay, D. E., Parrish, T., & Padilla, C. (1989). Alternative programs and strategies for serving students with learning disabilities and other learning problems (Final Report). Menlo Park, CA: SRI International.

U.S. Department of Education. (1992). Fourteenth annual report to Congress to assure the free and appropriate public education of all children with disabilities. Washington, DC: Author.

U. S. Department of Education. (1996). Eighteenth annual report to Congress on the implementation of the Individuals with Disabilities Act (citing the 1992 October supplement on school enrollment, p. 98). Washington, DC: Author.

Verstegen, D. A. (1991). The economic and demographic dimensions of national education policy. In J. G. Ward and P. Anthony (Eds.), Demographic trends and cultural diversity: Challenges for school finance policy (pp. 71-96). Newbury Park, CA: Sage Publications.

Verstegen, D. A. (1995). Consolidated special education funding and services: A federal perspective (Policy Paper No. 6). Palo Alto, CA: Center for Special Education Finance, American Institutes for Research.

Winners All: A call for inclusive schools. (1992). Alexandria, VA: National Association of State Boards of Education.

Ysseldyke, J., Algozzine, B., Richey, L., and Graden, J. (1982). Declaring students eligible for learning disability services: Why bother with the data? Learning Disability Quarterly, 5, 37-44.

The series *Special Education in an Era of School Reform* is produced under the auspices of contract #HS93033001 between the Academy for Educational Development and the U.S. Department of Education's Office of Special Education Programs. The contents of this publication do not necessarily reflect the views or policies of the Department of Education or the Federal Resource Center for Special Education, nor does mention of trade names, commercial products or organizations imply endorsement by either of these parties or by the U.S. Government.

The Federal Resource Center for Special Education
Carol Valdivieso, Director
Gary Rutkin, Assistant Director
Michele Rovins, Program Associate

For additional copies of this and
other reports in the series, please contact
The Federal Resource Center
Academy for Educational Development
1875 Connecticut Avenue, Suite 900
Washington, DC 20009
(202) 884-8215
frc@aed.org
http://www.dssc.org/frc/